

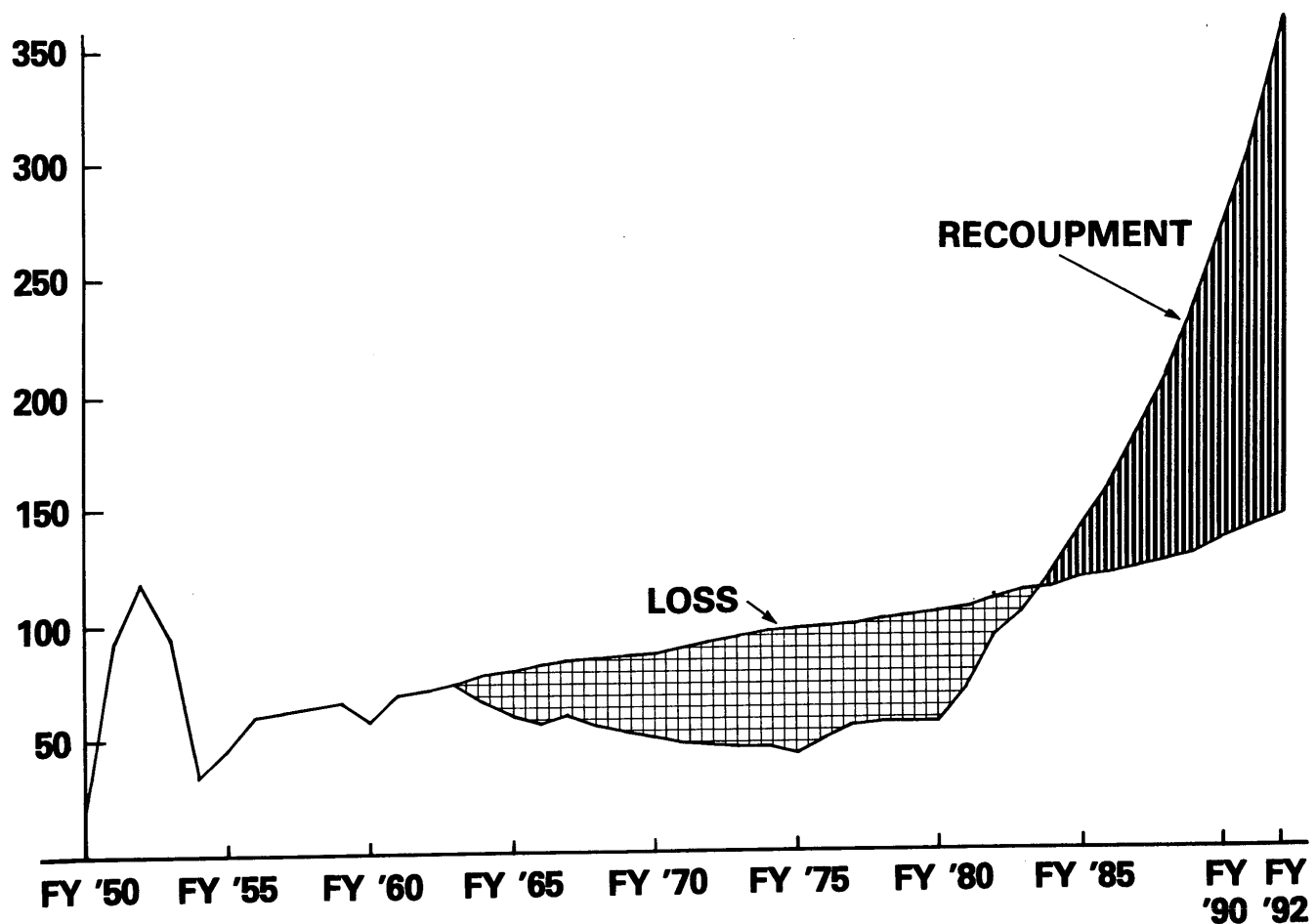
THE OMB PROPOSAL COULD CREATE THE WORST OF ALL WORLDS

- **CAUSE US TO FALL FURTHER BEHIND THE SOVIETS**
- **EXPAND WINDOW OF VULNERABILITY**
- **UNDERMINE FOREIGN POLICY**

AND NOT SOLVE FY 84 DEFICIT PROBLEM

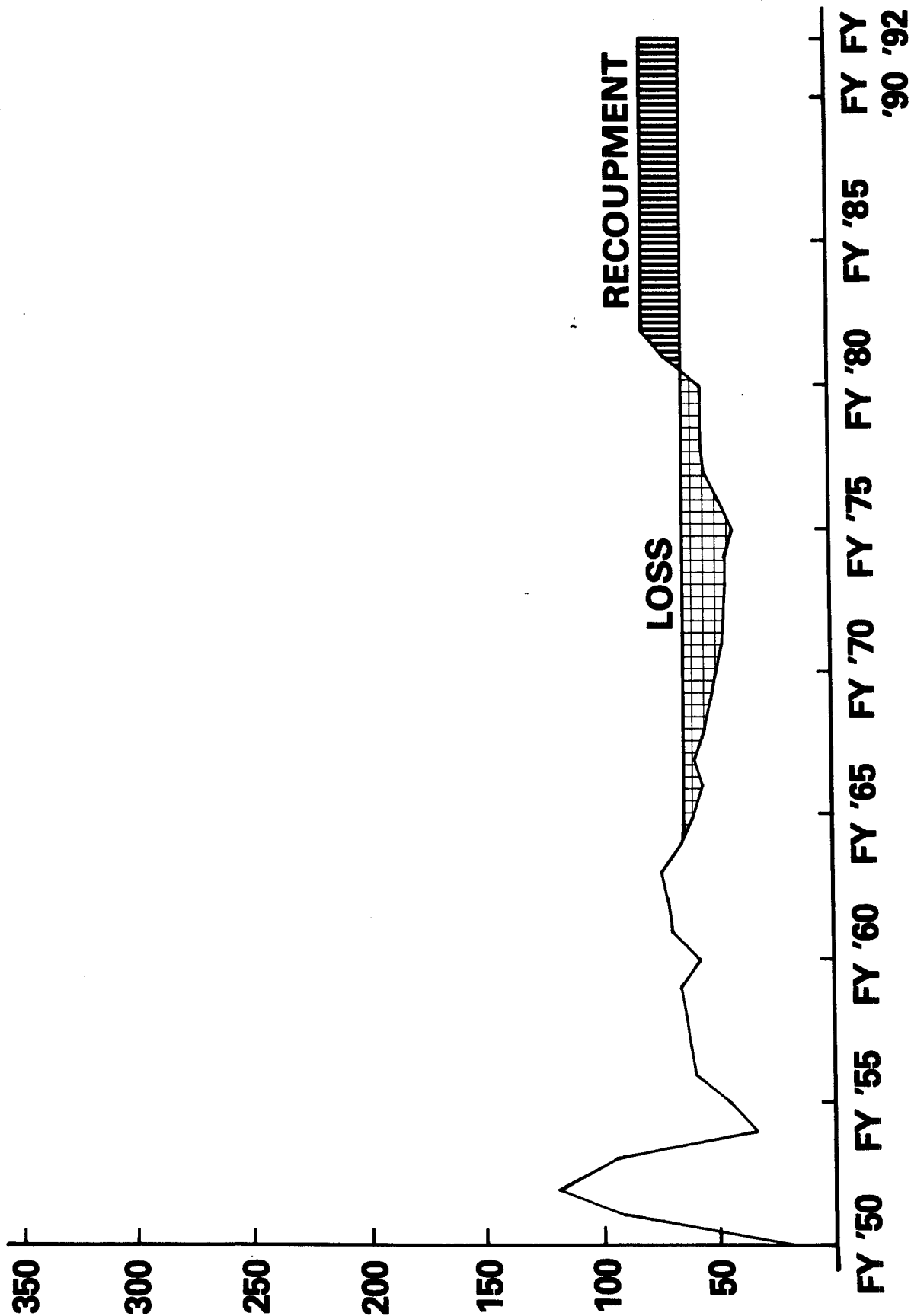
INVESTMENT GAP — DOD VIEW

(CONSTANT FY '82 BILLIONS OF DOLLARS)



INVESTMENT GAP — ALTERNATIVE VIEW

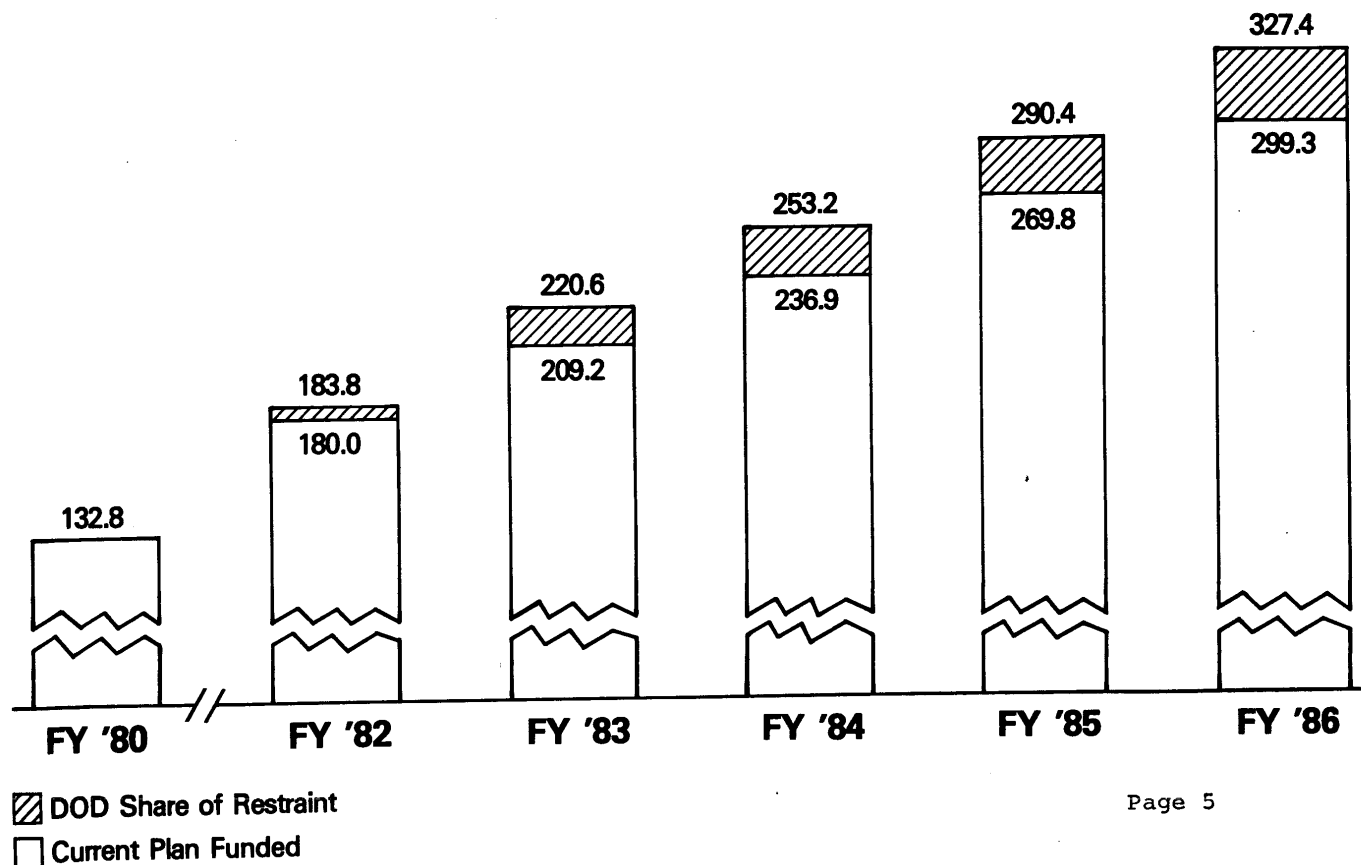
(CONSTANT FY '82 BILLIONS OF DOLLARS)



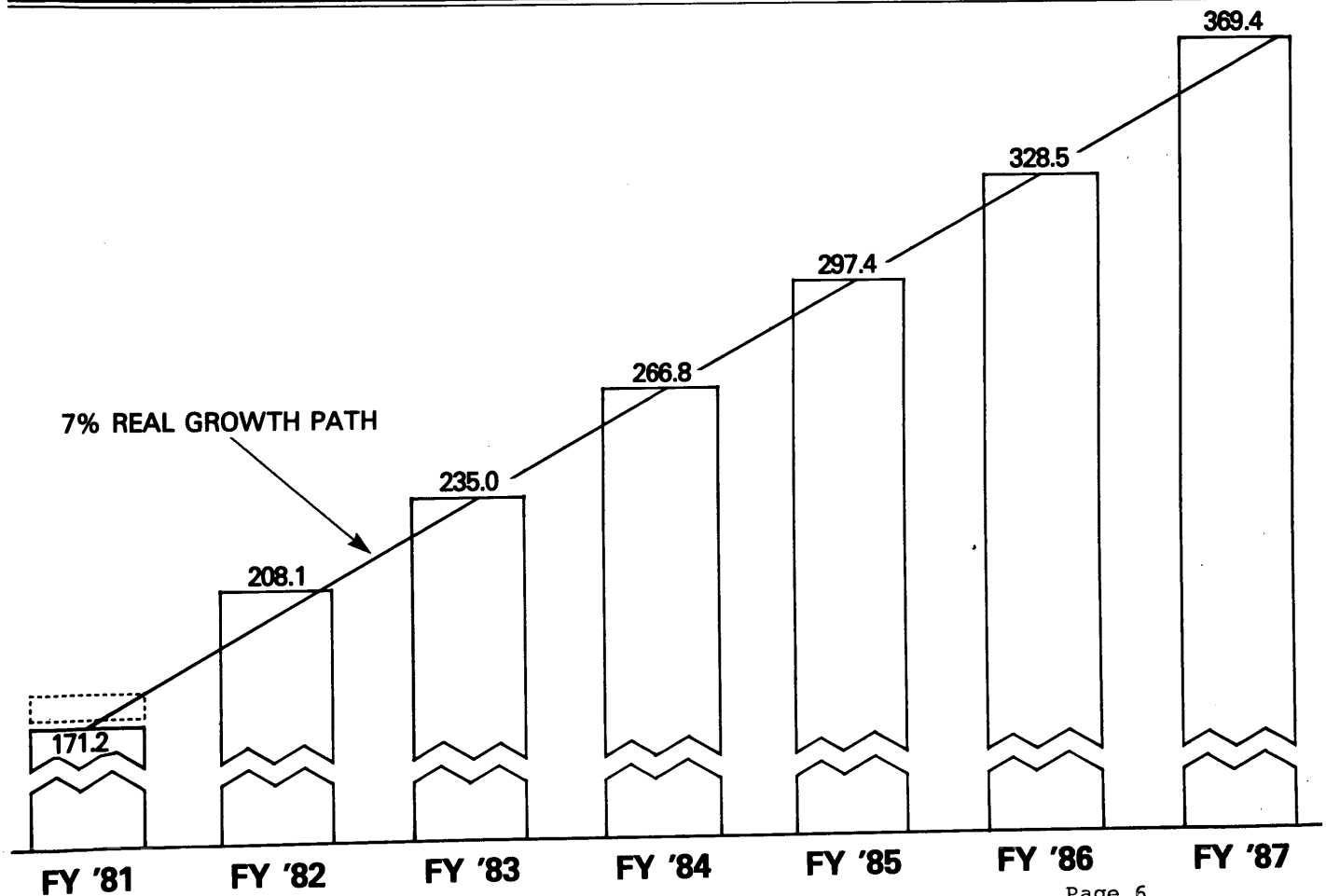
Inherited Condition 1973-81 weak economy, weak defense, weak nation	Transition Era New policies in 1982-84	Future Goal — 1985 and Beyond Sustained national economic growth and prosperity, restoration of military power, permanent national strength
I. Weak National Economy <ul style="list-style-type: none"> • 2.4% real growth compared to 4.6% in 1960's • Double digit inflation, depreciating dollar and monetary disorder • 0.3% decline in productivity (1977-80) compared to 3.0% growth historically • Decline of investment, technological momentum and international competitiveness • Absolute fall in after-tax living standard compared to 4.0% growth in 1960's • Ballooning social safety net expenditures 	Reagan economic recovery program	III. Strong Economy and Permanent Prosperity <ul style="list-style-type: none"> • 4-5 percent real growth each year • Inflation less than 3 percent and stable dollar • High rates of savings, investment, technological advance and productivity gain • 3-4 percent annual increase in living standard • Shrinking social safety net
II. Deteriorating Defense <ul style="list-style-type: none"> • 5% of GNP on defense • Loss of strategic margin of safety • "Hollow Army," low readiness, decline in manpower quality, training and pay • Drastic decline in size and capability of Navy • Inadequate general purpose force capacity to fulfill foreign policy commitments and meet global contingencies 	Reagan defense rebuilding program	IV. Strong Sustainable National Defense <ul style="list-style-type: none"> • 7-8 percent of GNP committed through 2000 to long-haul struggle with Soviets • Permanent strategic margin of safety Modern, 600 ship — 3 ocean Navy • Modern land and air general purpose forces, multiple-theatre capability, rapidly deployable forces • Readiness and sustainability investment to meet all foreign policy and global security objectives

FROM A BUDGETARY POINT OF VIEW

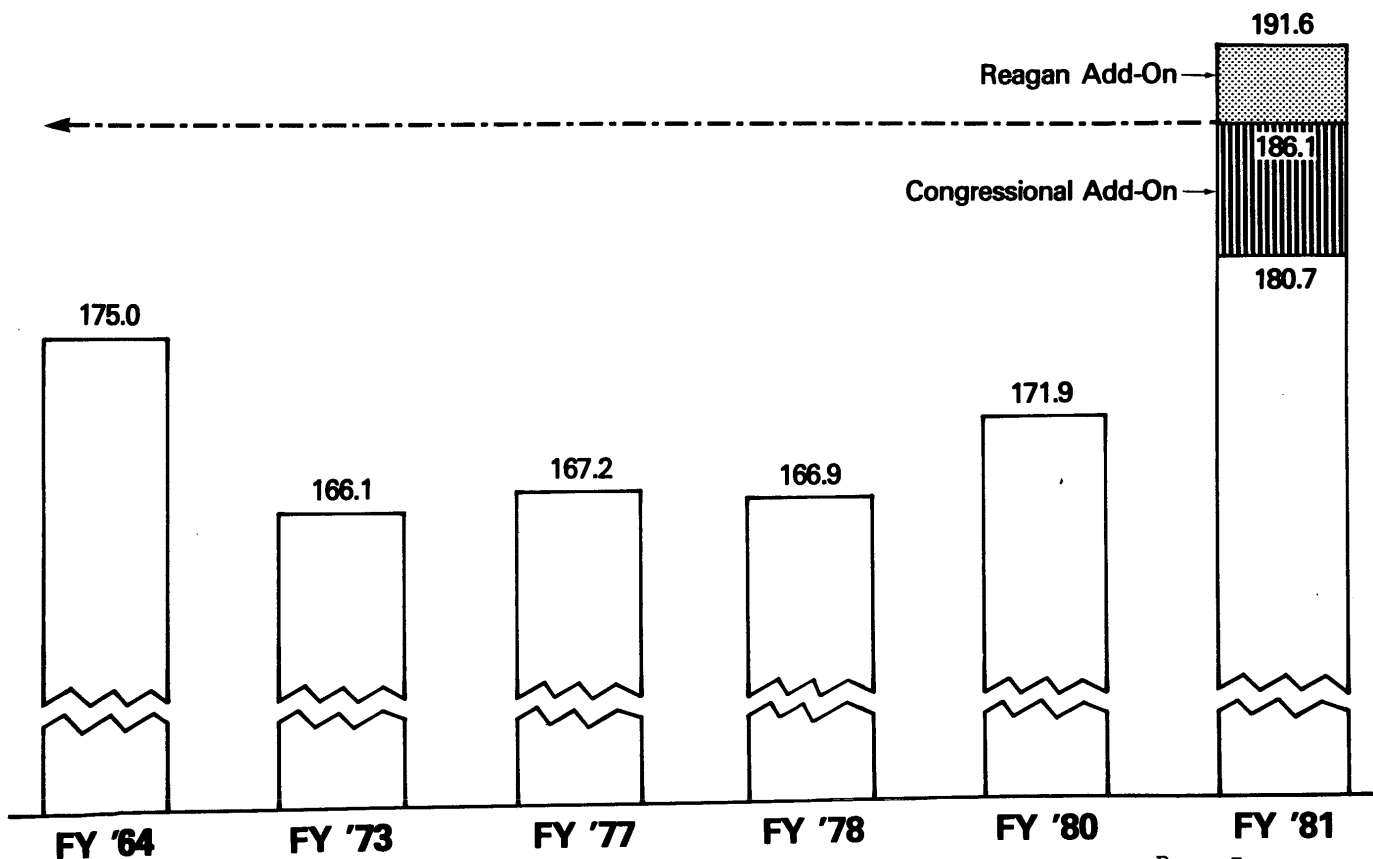
ABOUT 94 PERCENT OF CURRENTLY PLANNED DOD OUTLAYS OVER
FY '82-86 CAN BE ACCOMMODATED WITHOUT UNACCEPTABLE DEFICIT AND
ECONOMIC RISK — BUT DEFICIT THREAT IS SO SEVERE THAT ALL AGENCIES
MUST SHARE IN THE RESTRAINT
(BILLIONS OF DOLLARS)



FROM A DEFENSE POINT OF VIEW
THE SLOWER GROWTH ALTERNATIVE PROVIDES
7% REAL GROWTH — THROUGH FY '87
(BILLIONS OF DOLLARS)

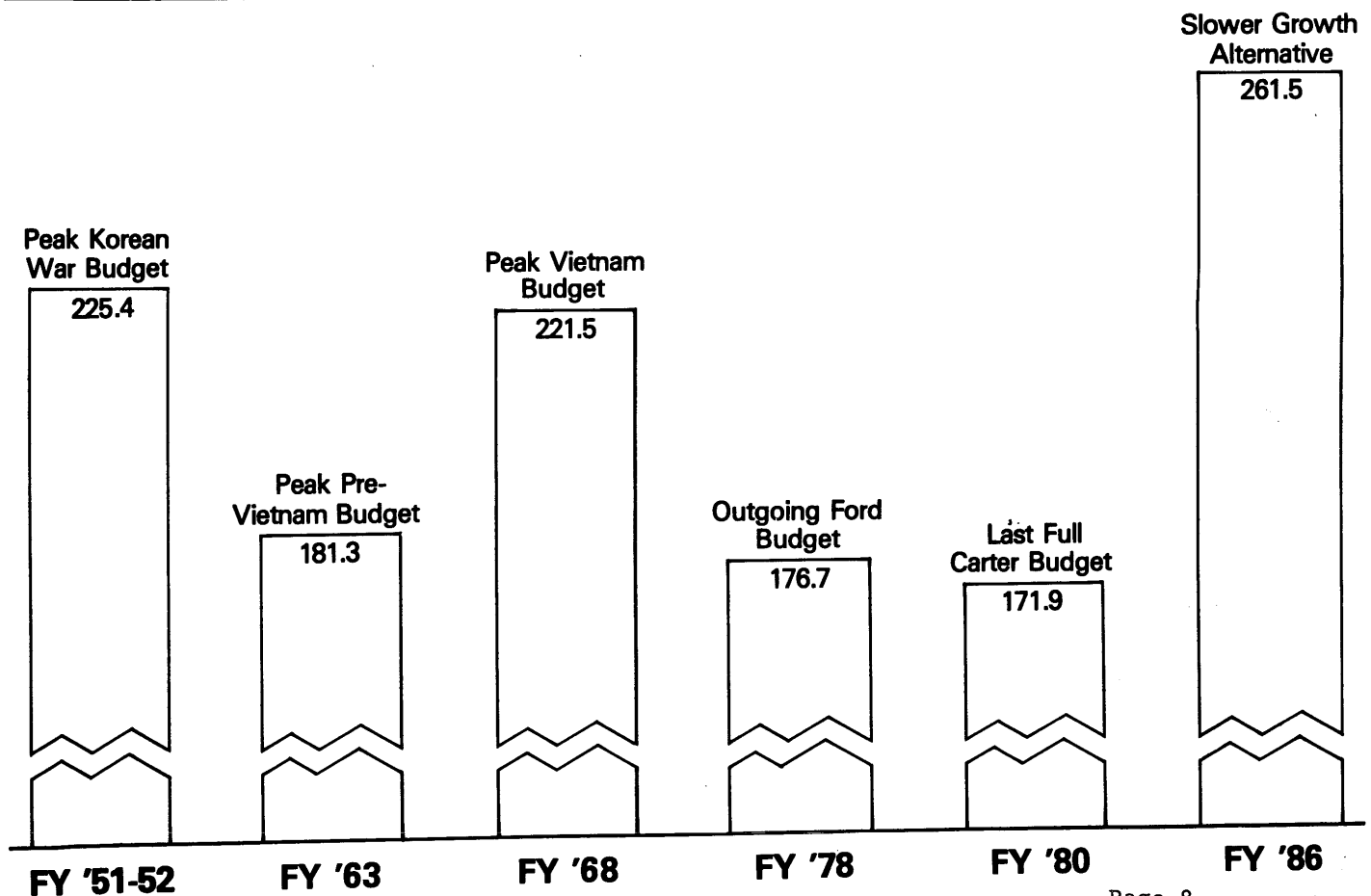


**THE FY '81 DEFENSE BUDGET WAS INADEQUATE
BUT NOT AN ARTIFICIALLY LOW BASE — IN FACT
IT PROVIDED THE HIGHEST PEACETIME REAL FUNDING
LEVEL SINCE THE EARLY 1960's**
(CONSTANT FY '82 BILLIONS OF DOLLARS)



THE SLOWER GROWTH ALTERNATIVE FUNDS A FIVE YEAR PATH TO UNPRECEDENTED REAL DEFENSE INVESTMENT LEVELS

(CONSTANT FY '82 BILLIONS OF DOLLARS)



● SHOULD DEFENSE GROWTH RATE REALIGNMENT ● BEGIN IN FY '82 OR FY '83

PRO

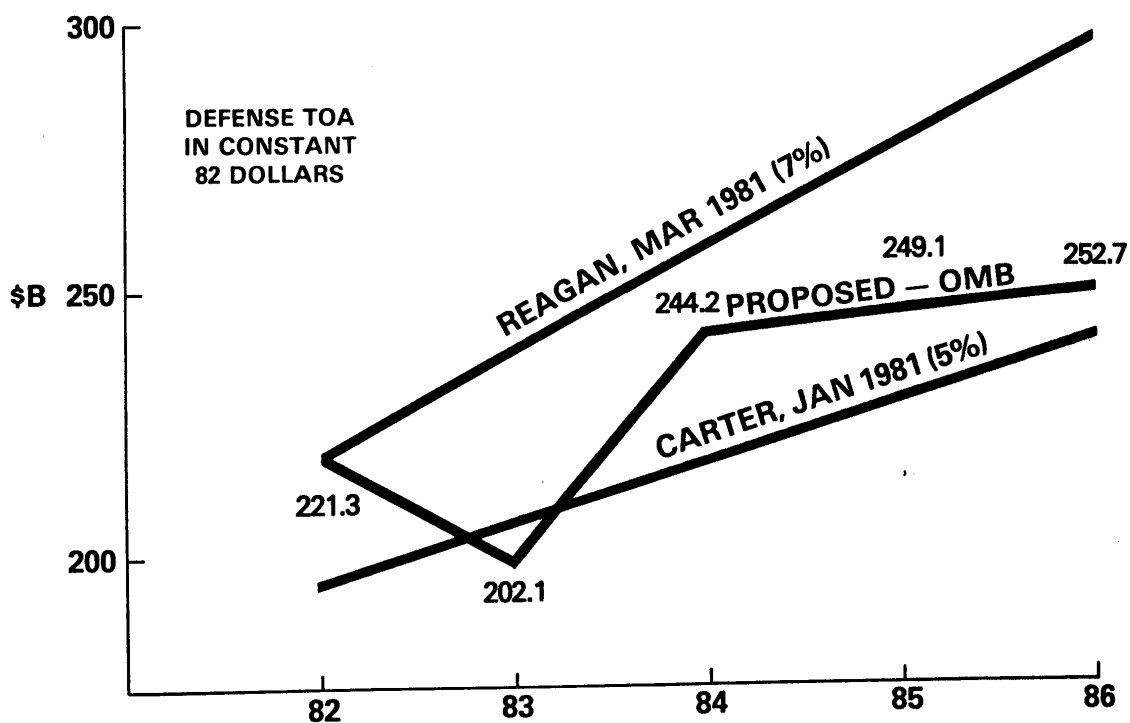
- To hold line on FY '82 deficit we must propose 10-15% cut in \$134 billion of domestic appropriated programs.
- These cuts will produce funding levels well below the authorization ceilings Congress has already approved.
- Politically it will be difficult to cut FY '82 domestic programs for second time if no change in defense.
- FY '82 defense request of \$221.3 billion represents \$79 billion or 56% increase since FY '80. . . can be tapered to \$66 billion or 46% increase.
- Under budget deficit and interest rate pressure and veto threat on domestic appropriations — Congress is likely to reduce FY '82 defense appropriation on its own.
- As technical matter outlay savings of \$12 billion and \$16 billion in FY '83 and FY '84 cannot be achieved without severe start/stop program disruption — due to slow first year spend-out rate of discretionary TOA.

CON

- Could provide misleading signal to allies and adversaries.
- Both Houses have passed FY '82 defense authorization bills by wide margin.
- Could encourage Congress to cut further to unacceptable levels.
- Would delay start-up or dilute some planned FY '82 initiatives.

SECRET

AND NOW FROM OMB - - - -

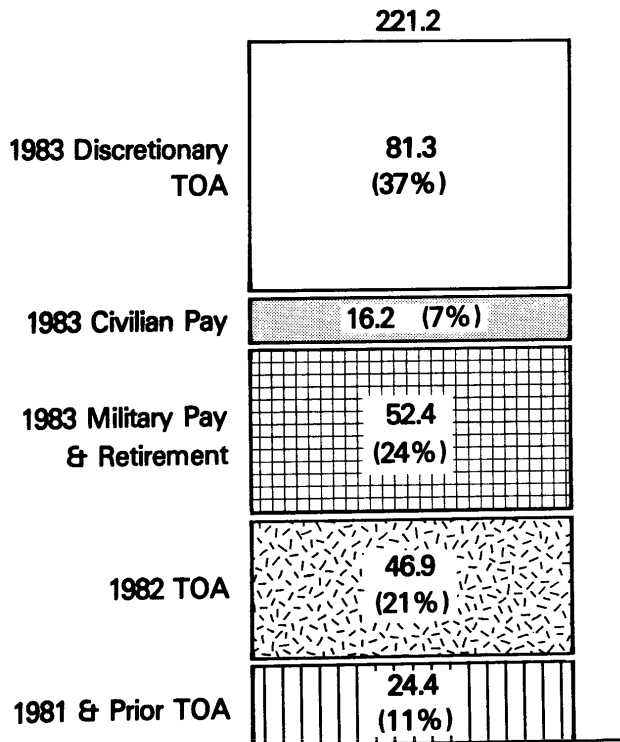


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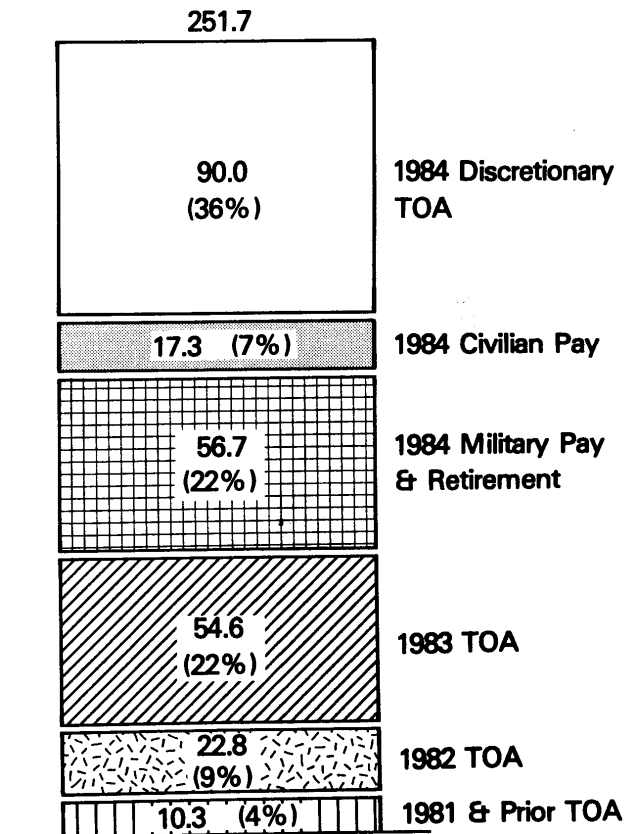
SOURCE OF OUTLAYS

(BILLIONS OF DOLLARS)

1983 OUTLAYS

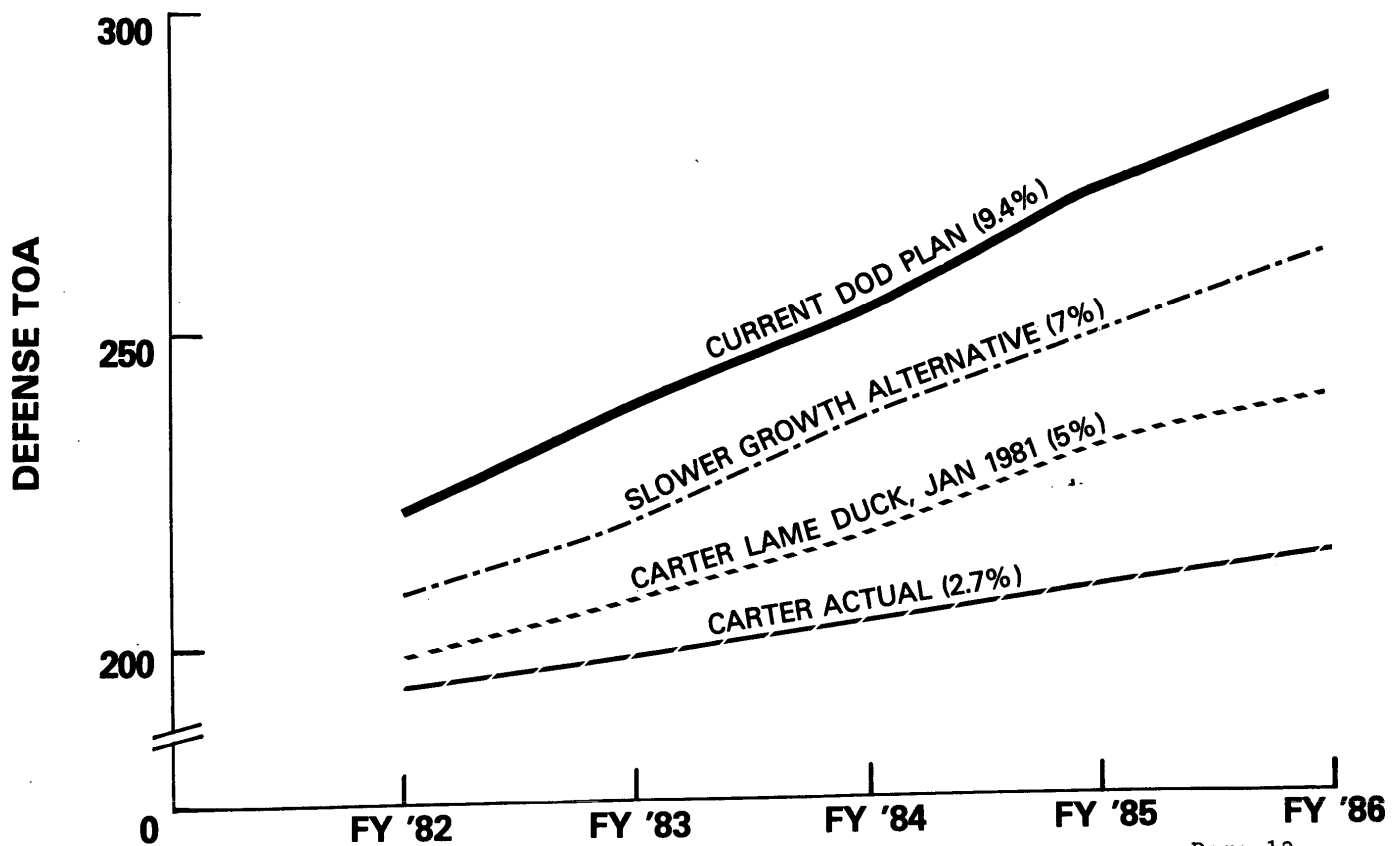


1984 OUTLAYS



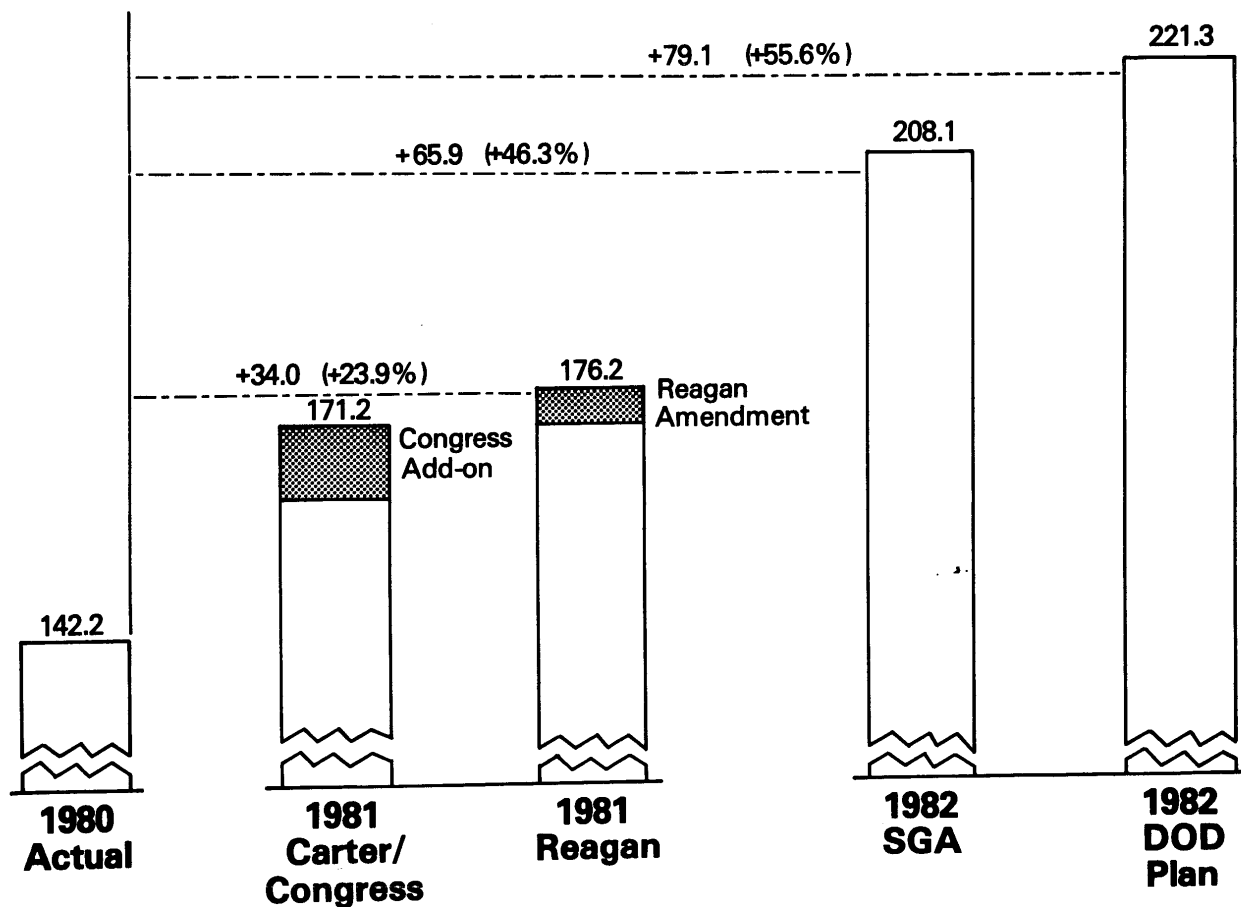
SLOWER GROWTH ALTERNATIVE AS ACTUALLY PROPOSED

(CONSTANT FY '82 BILLIONS OF DOLLARS)



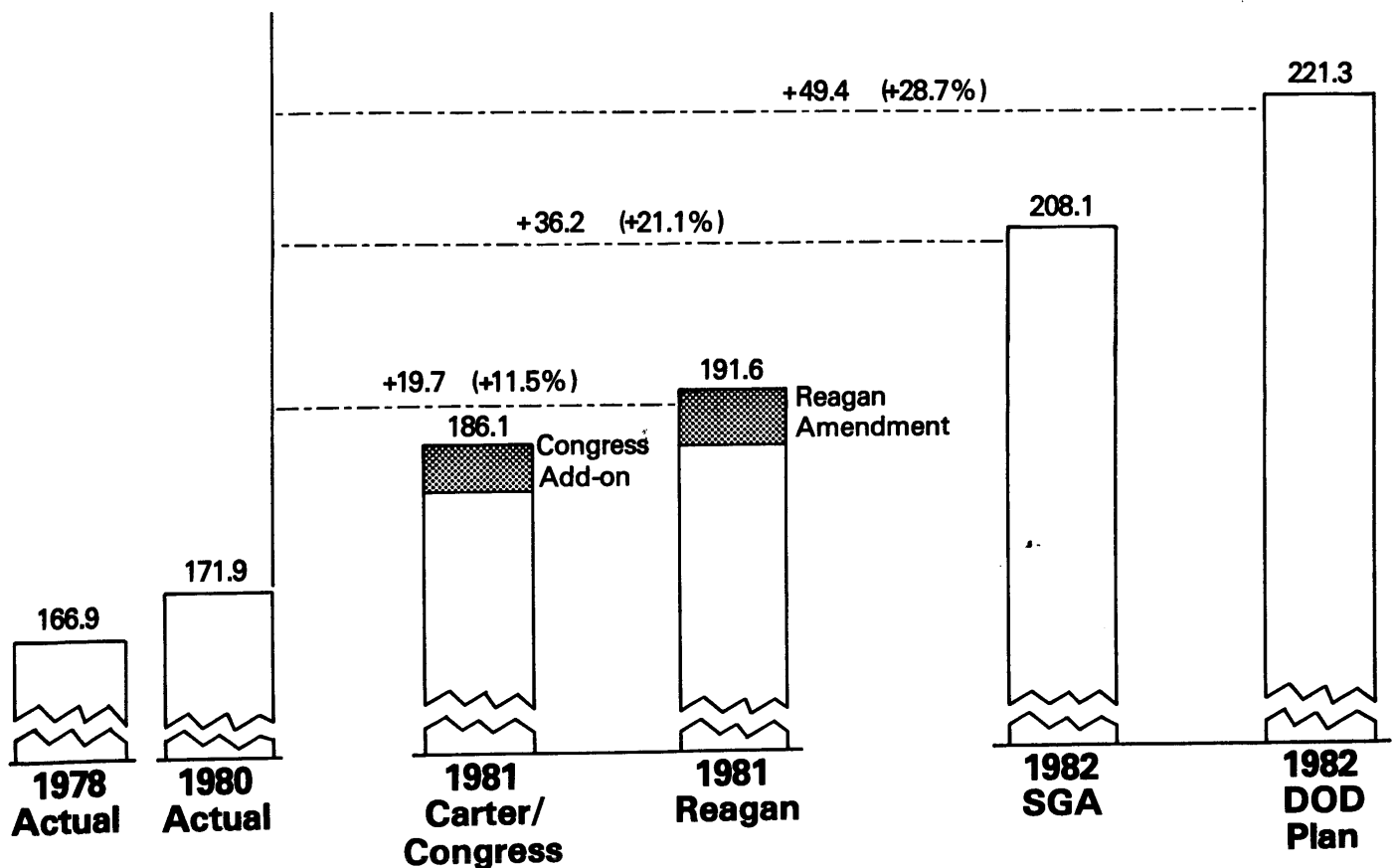
THE DEFENSE TOA SURGE 1980-1982

(CURRENT DOLLARS)






THE DEFENSE TOA SURGE 1980-1982

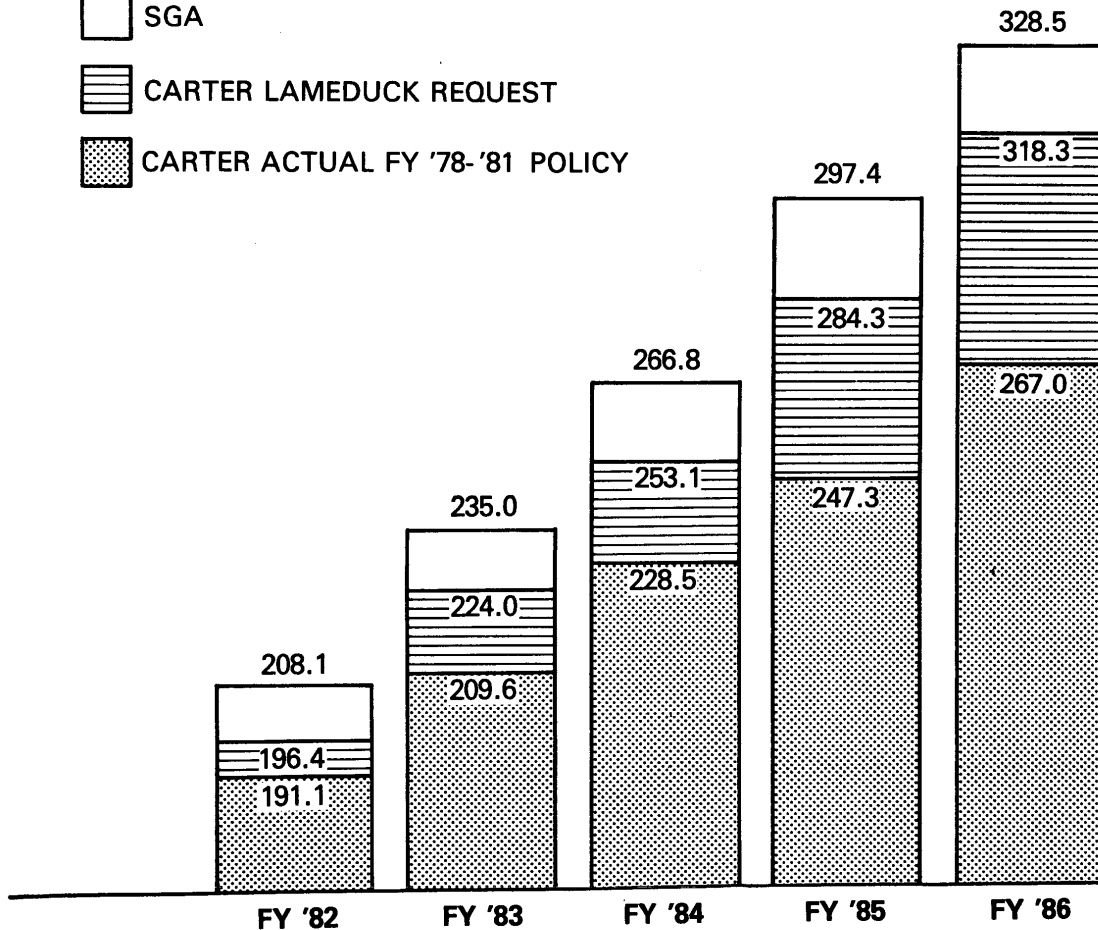
(CONSTANT 1982 DOLLARS IN BILLIONS)



SGA AND CARTER GROWTH COMPARISONS

TOA DOLLARS (BILLIONS)

-  SGA
-  CARTER LAMEDUCK REQUEST
-  CARTER ACTUAL FY '78-'81 POLICY



MODERNIZATION, FORCE STRUCTURE AND READINESS

- In a quarter trillion budget there is more than one way to shave 7% from growth path.
- A slower growth path does not require sacrificing key modernization programs.

FY '83-87 Quantities Funded

Item	Current Defense Plan	Slower Growth Alternative (OMB Proposal)	Slower Growth Alternative (Military Service Proposals)
<u>Land Forces</u>			
M-1 Tanks	5,270	5,270	3,693
<u>Naval Forces</u>			
General Purpose Ships	138	115	101
P-3 ASW Aircraft	58	58	0
AV-8B Marine Attack Aircraft	228	198	0
<u>Tactical Air Forces</u>			
Air Force Fighter/Attack Aircraft	1,192	948	844
F-16	(720)	(720)	(456)
<u>RDF Mobility</u>			
RDF Prepositioning Ships	5	5	0
KC-10	8	8	0
Commercial Aircraft Conversions (CRAF)	19	55	0

Nor does it require sacrificing key elements of the existing force structure and planned readiness program.

Item	Current Defense Plan	Slower Growth Alternative (OMB Proposal)	Slower Growth Alternative (Military Service Proposals)
<u>1984 Force Structure</u>			
Active Army Divisions	16	16	15
Total Navy ships	614	613	596
Active Air Force fighter wings	26	26	24
B-52D bombers	80	80	0
Titan II Missiles	53	53	0
<u>RDF Capacity</u>			
Army brigades to Southwest Asia in 30 days (1984)	9	10	4
Pre-positioned equipment on ships (1987)	3	3	1
<u>Planned pre-positioned Army Divisions (Europe)</u>	6	6	4
<u>Readiness Indicators Aircraft</u>			
Air Force mission capable rates	66%	66%	56%
Navy mission capable rates	61%	61%	53%
<u>Army Ammunition Stocks (FY '87)</u>	60-75 days	52-65 days	45-55 days

REDUCTION PROPOSED IN SLOWER GROWTH ALTERNATIVE

(TOA Billions of Dollars)

	1982	1983	1984
I. <u>Government-wide</u>			
Pay, employment and retirement reductions	<u>.8</u>	<u>2.4</u>	<u>3.2</u>
II. <u>Eliminate or Reduce Marginal Systems</u>	<u>5.6</u>	<u>7.3</u>	<u>7.6</u>
Substitute lower cost armored troop carrier	.8	.7	.8
Cancel F-18	2.1	1.3	1.5
Cancel Roland air defense missile	.5	.5	.4
Cancel LAMPS MK III helicopter	.9	.8	.5
Shipbuilding	--	2.3	2.5
Other	1.3	1.7	1.9

	1982	1983	1984
III. <u>Other Reductions</u>	<u>6.8</u>	<u>9.0</u>	<u>10.4</u>

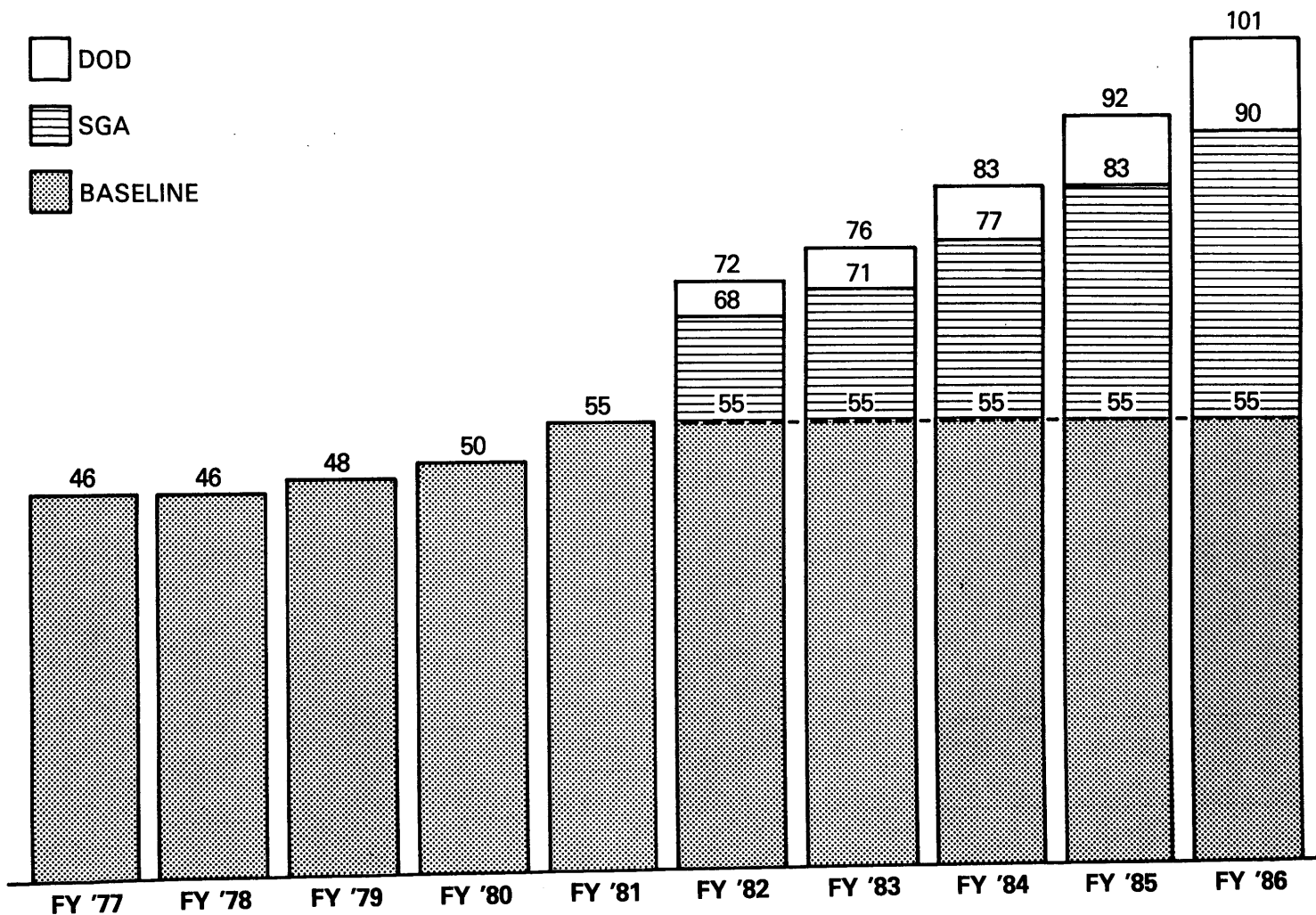
Rapid but sustainable growth in:

- Military manpower. Limit increase to 61,000 by 1986. Satisfies all approved force structure increases.
- Construction program. Protects all strategic, space shuttle and NATO-related construction. Maintains general purpose construction at 1981 level.
- Non-major procurement. Reduces annual real growth rate from 18% to 16%, but still doubles the funding in the 1982-86 period. Protects 97% of aircraft spares request.
- Army ammunition. Reduces real growth in Army ammunition from 29% to 18% per year. Procurement in 1982-86 is still twice the preceding five years.
- O&M purchases. Reduces real growth rate for O&M purchases from 9.3% to 6.9% per year. 13% increase in 1982 fully supports all combat and training needs. Purchases in 1982-86 are 40% greater than the preceding five years.

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READINESS AND SUSTAINABILITY

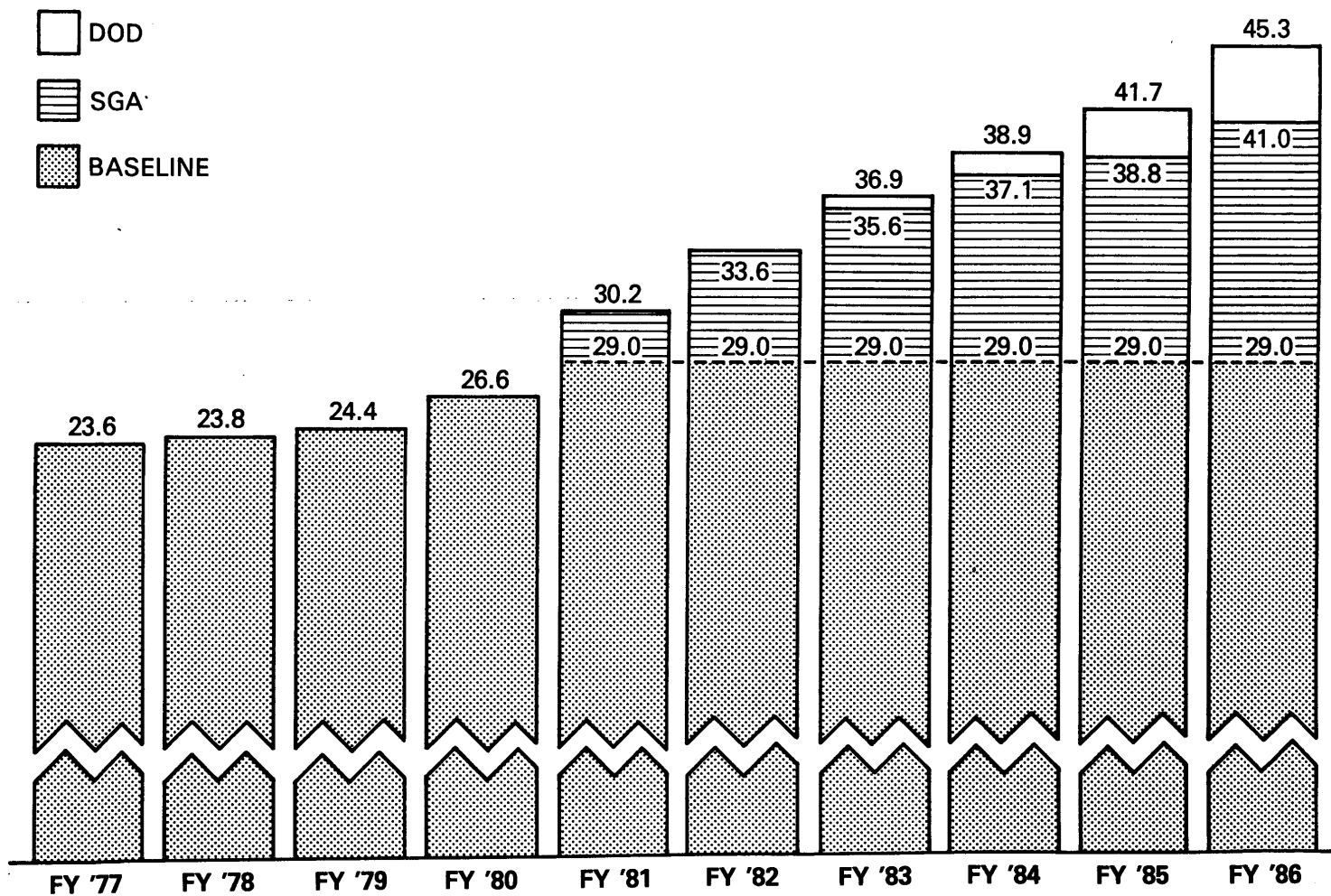
TOA CONSTANT 1982 DOLLARS (BILLIONS)



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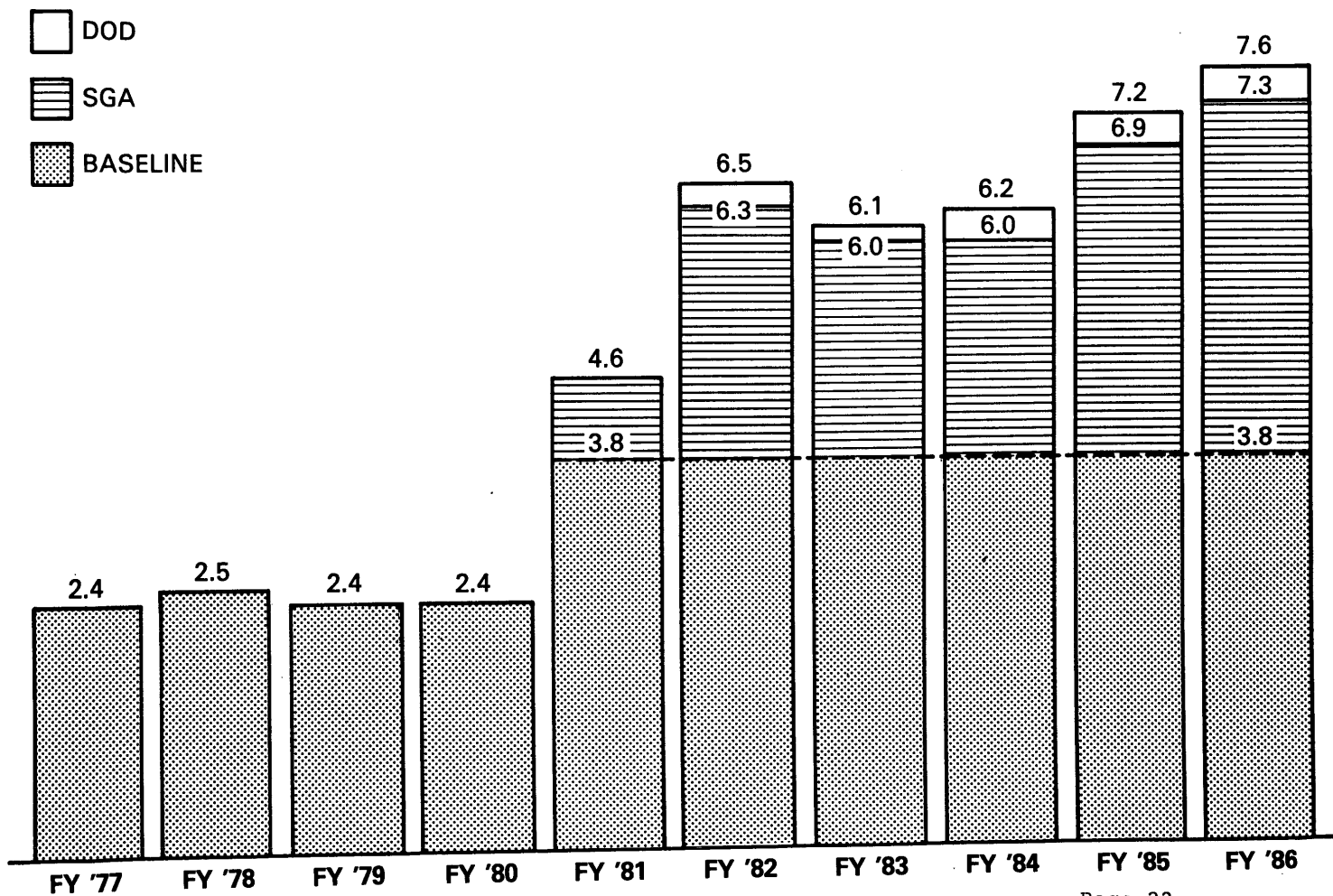
O&M PURCHASES - READINESS

TOA CONSTANT 1982 DOLLARS (BILLIONS)



SPARES PROCUREMENT

TOA CONSTANT 1982 DOLLARS (BILLIONS)



CRITICAL READINESS PROBLEMS

<u>SERVICE</u>	<u>PROBLEM</u>	<u>SOLUTION</u>	<u>SGA ALTERNATIVES</u>
Army	<ul style="list-style-type: none"> — Poor recruit quality — Inadequate numbers of experienced career personnel 	<p>Pay and benefits increase 30% in 1981-82 with pay comparability maintained thereafter</p> <ul style="list-style-type: none"> — High school graduates up from 40% to 69% so far this year — Lower mental groups down from 49% to 28% — Career force goals should be met in FY '82 	Preserves these pay increases
Navy	<ul style="list-style-type: none"> — Providing adequate numbers of petty officers in the high skill and sea-going ratings 	<ul style="list-style-type: none"> — Increased sea pay and a \$200M increase in reenlistment bonus program should remedy skill imbalances — Career force goals should be met by FY '82. Career reenlistment rate up from 68% to 75% so far this year 	Preserves these pay increases
Air Force	<ul style="list-style-type: none"> — Failure to achieve desired flying rates due to spare parts shortages 	<p>Increase funding for aircraft spares to \$14.4B over 1982-86 versus \$6.0B over 1977-81 (\$82)</p> <p>Nominal increase for 1980-82 is \$2.5B</p>	Funds 97% of DOD plan over 1982-86

WHAT SLOWER GROWTH ALTERNATIVE (SGA) WOULD BUY

1) Total Defense Program Resources, FY '82-86

- \$1.34 trillion over five years compared to \$1.45 trillion in current DOD plan.
- \$191 billion more than continuation of low-growth Carter policies of FY '77-81.
- FY '86 defense budget 38 percent larger in real terms than Carter FY '81. Defense budget grew only 9.9 percent in real terms, FY '75-81.
- Defense budget share up from 23.7 percent in FY '81 to 33.2 percent by FY '86.

2) Strategic Modernization — Full Funding

- \$154 billion over five years including new bomber, MX missile system and Trident modernization.
- No change from current DOD guidance.

3) Readiness and Sustainability — Rapid Growth

- 43 percent increase in O&M purchases and small procurement in FY '82. Much of this eliminates 1-time backlogs or spares pipeline shortages — providing additional free funds after 1982 for other unmet needs.
- Double annual funding level — from \$48 billion (FY '81) to \$109 billion — by FY '86.
- 11 percent annual real growth rate compared to only 2.8 percent during Carter period.
- 22 percent annual real growth rate for modifications, spares and support. Mission essential needs receive top priority; others deferred or stretched out.
- 18 percent annual real growth rate for Army ammunition. 1982-86 program in constant dollars is more than double the FY '77-81 actual program.
- 15 percent annual real growth rate for communications and electronics.

4) Military Pay Incentives

- Full 14.3 percent pay increase in 1981 and same as DOD guidance thereafter.
- By FY '86 average pay after inflation would be 14 percent higher than 1980. Real pay declined by 8 percent in 1976-1980.

5) Army General Purpose Modernization

- 7 percent real annual growth rate for general purpose procurement. Protects M-1 tanks, Patriot Air Defense System, the Blackhawk medium lift helicopter, and an 18 percent annual increase in ammunition.
- Fund 4,800 tanks over FY '82-86 compared to 1,800 in previous five years.

6) Navy General Purpose Modernization

- 8.4 percent annual real growth rate compared to 1.6 percent requested by Carter in FY '77-81.
- Fund 12 attack submarines in FY '82-86 compared to 9 in previous five years.
- Fund 15 Aegis cruisers in FY '82-86 compared to 4 in previous five years.
- Fund 3,200 harpoon and tomahawk cruise missiles and 19,500 anti-air missiles — same as current DOD guidance.
- 25 percent increase over Carter FY '82-86 ship construction program.

7) Air Force General Purpose Modernization

- \$25.3 billion over FY '82-86 including accelerated procurement of F-15 and F-16 aircraft.
- 930 fighter aircraft funded in FY '82-86, 75 percent more than the number in the Carter January budget.
- Funds 45,500 tactical air-to-air and air-to-ground missiles — a 15 percent above January budget.

8) End-Strength Turn-Around

- Increases service end-strength to over 2.1 million by FY '84 — 94,000 increase from low 1979 levels.

9) RDTE

- Provides \$43.4 billion in FY '82-83 compared to \$29.6 in Carter FY '80-81 budgets — a 47 percent increase.
 - Funding for FY '83-86 same as DOD guidance.
-

SUMMARY OF DIFFERENCES CURRENT DOD PLAN VS. SLOWER GROWTH ALTERNATIVE

Item	FY '82	FY '83	FY '84	FY '85	FY '86
<u>Outlay Path:</u>					
1) Current DOD plan	183.8	220.6	253.2	290.4	327.4
2) Slower growth alternative	<u>180.0</u>	<u>209.2</u>	<u>236.9</u>	<u>269.8</u>	<u>299.3</u>
3) Difference	3.8	11.4	16.3	20.6	28.1
<u>TOA Path:</u>					
4) Current DOD plan	221.3	253.7	288.0	325.1	366.0
5) Slower growth alternative	<u>208.1</u>	<u>235.0</u>	<u>266.8</u>	<u>297.4</u>	<u>328.5</u>
6) Difference	13.2	18.7	21.2	27.7	37.5
<u>TOA Real Growth Rates:</u>					
7) Current DOD plan	18.9	7.3	7.0	7.0	7.0
8) Slower growth alternative	11.8	5.7	7.0	5.7	5.1
					<div>Compound Growth From Carter FY '81</div> <div><u>9.4</u></div> <div><u>7.0</u></div>